

CANADIAN CREDIT

August 2014

Chart 1

Household & business credit growth: Canada

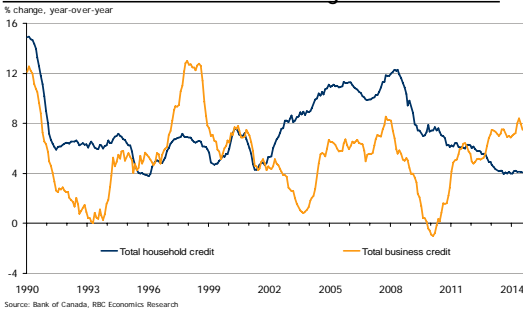


Chart 2

Household credit growth: Canada

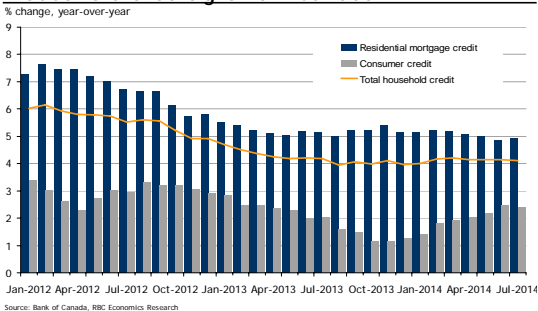
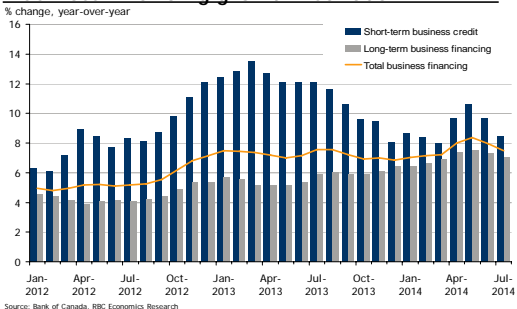


Chart 3

Business financing growth: Canada



Steady trend in household credit growth sustained in July

Evidence that Canadians are heeding the Bank of Canada's warnings about elevated debt levels was evident in the monthly credit data for July with household credit growth continuing to hover around rates of growth not seen since 1996 (chart 1). The 4.1% increase in July marked the fourth consecutive month of steady year-over-year gains and further extended the stretch of borrowing activity within a 3.9-4.2% range that began in May 2013. In contrast, overall business financing slowed in July, rising by 7.5% compared to 7.9% in June (was 8.1%) and a recent peak of 8.4% in May.

Mortgage growth at slowest pace since November 2001

Outstanding mortgage balances neared a record \$1.25 trillion in July, however, the year-over-year rate of increase remained unchanged from the previous month. The 4.9% rise in mortgage accumulation in June and July marked the lowest rate of increase since November 2001 and followed nineteen consecutive months of growth remaining in 5% territory. The recent upward momentum in non-mortgage credit growth also paused in July with the 2.4% increase from year-ago levels marking a slight deceleration from the 2.5% rate recorded in June. Borrowing funded by chartered banks slowed in the month as consumers' appetite for personal loans and credit cards eased to more than offset personal lines of credit edging higher for the first time since October 2013.

Total business financing slows for the second consecutive month in July

Short-term business borrowing continued to trend lower in July, rising by 8.5% on a year-over-year basis following a 9.6% gain in June and a recent peak of 10.6% in May. As well, a slowing in corporate bond issuance along with a lessening in demand for funding through equities contributed to longer-term business financing rising at a slower rate in July than in the previous month (bonds, debentures, equities and warrants make up 84% of longer-term financing). The 7.1% increase from the year-ago level represented a deceleration from the 7.3% and 7.5% rates recorded in June and May, respectively.

Low rates of household credit growth supportive of shift in neutral policy

The risks surrounding elevated credit balances largely stem from households' continued ability to manage existing debt repayments when interest rates rise and a greater share of disposable income is needed to make payments. In the absence of unforeseen macroeconomic shocks, a gradual path of interest rate increases, a strengthening economic backdrop and rising income gains should help to contain the risks. The sustained low rates of total household credit growth will further help to abate a sharp deterioration in household's ability to meet their debt obligations. While a seasonal quarterly bounce in mortgage borrowing may result in the oft-cited debt-to-income ratio edging higher in Q2/14 with the release of the National Balance Sheet Accounts, the monthly data for July continue to indicate that households are easing up on their accumulation of credit. We remain of the view that the Bank of Canada will shift its policy stance later this year in response to a strengthening in economic growth.

Canada

As at the end of July, 2014	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
Household markets					
Household credit	1,776	100.0	7.4	6.6	4.1
Consumer credit	527	29.7	4.8	6.6	2.4
Chartered banks	447	25.1	3.4	6.3	2.1
<i>Personal loan plans</i>	94	5.3	7.2	11.6	7.2
<i>Personal lines of credit</i>	260	14.6	3.0	2.6	0.2
<i>Credit cards</i>	74	4.2	-0.6	13.0	3.3
<i>Other</i>	19	1.1	5.5	6.8	0.0
Non-banks	66	3.7	14.8	7.7	4.3
Securitized loans	14	0.8	6.2	13.4	8.4
Residential mortgages	1,249	70.3	8.5	6.6	4.9
Chartered banks	932	52.5	7.8	6.0	4.3
Non-banks	262	14.8	7.5	6.2	5.8
Securitized mortgages	55	3.1	28.2	21.2	12.2
<i>NHA MBS</i>	42	2.4	36.2	2.9	15.9
Business markets					
Total business financing	1,572	100.0	5.5	5.0	7.5
Short-term business credit	443	28.2	3.0	1.7	8.5
Chartered banks	343	21.8	0.6	1.0	8.7
<i>Business loans</i>	275	17.5	13.1	4.6	9.1
<i>Bankers' acceptances</i>	68	4.3	-36.9	-12.0	7.0
Non-banks	82	5.2	6.0	5.5	8.2
Securitized loans	6	0.4	17.0	38.3	25.5
Commercial paper	12	0.8	54.5	-15.9	-0.9
Long-term business financing	1,129	71.8	6.5	6.4	7.1
Chartered banks	49	3.1	-3.4	1.7	4.7
<i>Commercial mortgages</i>	39	2.5	-7.3	-0.1	4.1
<i>Leasing receivables</i>	10	0.6	14.0	9.6	7.3
Non-banks	87	5.6	5.4	4.7	6.1
Securitized loans	13	0.8	-8.5	-8.0	-6.8
Bonds & debentures	457	29.1	11.3	10.9	12.0
Equities & warrants	490	31.2	3.8	3.4	3.6
Trust units	32	2.1	4.6	7.7	7.0

*Annualized growth rates

Source: Bank of Canada, Haver Analytics, RBC Economics Research

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